

Terry E. Branstad
Governor

Kim Reynolds
Lt. Governor



Terry Rich
Chief Executive Officer

Iowa Lottery Report On Operations

To: Members of the House Government Oversight Committee and Senate Government Oversight Committee

From: Terry Rich, CEO

Date: December 2012

Jackpot News Galore



The Shipping 20

We highlighted headline-grabbing jackpot news in our June report to your committees, and even more lottery jackpot headlines have been generated in the months since then.

For the first time since Powerball's start in 1992, two jackpot-winning tickets in the game were sold in Iowa in the same calendar year – and it happened this year.

In June, The Shipping 20, a group of co-workers from the Quaker Oats Co. plant in downtown Cedar Rapids, claimed a \$241 million Powerball jackpot. And then in October, a

central Iowa couple stepped forward to claim a \$202.1 million Powerball jackpot. Mary and Brian Lohse of Bondurant won the prize in the Sept. 26 jackpot and chose to receive their prize as a lump-sum payment of \$129.8 million.

This month, both the Lohses and a member of The Shipping 20 have announced big donations to their communities. Kelly Mulford of Marion is giving \$75,000 to the United Way of East Central Iowa Endowment Fund. Mulford said he decided to share his story because he hoped to inspire others to give to the community through the United Way.

The Lohses are donating \$3 million to the Bondurant-Farrar Community School District, where their three children are students, for a new football stadium.

Along with all that big Iowa winner news, Powerball generated headlines around the world in late November when its jackpot rolled to a record amount. Two tickets in Missouri and Arizona ended up splitting the \$587.5 million jackpot in the Nov. 28



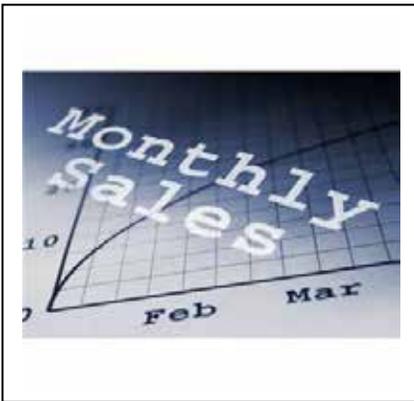
Mary and Brian Lohse

drawing. More than 114,000 tickets sold in Iowa won prizes that night, including seven tickets that came within one number of having at least a share of the jackpot.

During the busiest sales stretch leading up to that drawing, Powerball tickets were selling at more than \$11,000 per minute in Iowa. But the average purchase remained just \$6, or three plays. The lottery is pleased that Iowans got in on the fun of the big jackpot but didn't go overboard.

Iowa Lottery sales and proceeds for fiscal year 2013, which already were running ahead of FY 2012 results, got a big boost from those Powerball sales.

FY 2012 Results, Early FY 2013 Figures And FY 2014-15 Budgets



The lottery's latest financial performance figures for FY 2013 are included in this report as **Attachment A**, showing positive results for state causes.

Lottery proceeds through November, the latest month for which complete figures are available, were running about 17 percent ahead of FY 2012 figures for the same time period. That is especially positive news, given that FY 2012 was the best year in the lottery's history for proceeds from its current products (lotto games, instant-scratch games and pull-tab games).

Year-end figures for FY 2012 show that overall lottery proceeds for the year were nearly \$78.7 million compared to about \$68 million the previous year. Annual lottery sales totaled nearly \$311 million, the third year in a row that the lottery has achieved record combined sales from its core products. Prizes to players totaled more than \$182 million, also a record.

A five-year comparison of lottery sales, expenses and proceeds is included in this report as **Attachment B**.

During its Sept. 27 meeting, the Iowa Lottery Board approved both the lottery's FY 2014 and FY 2015 budgets in accordance with current state budgeting guidelines.

The lottery projects that its sales will total at least \$281 million in FY 2014 and \$287.7 million in FY 2015, while lottery proceeds to state causes will total at least \$62.2 million and \$62.5 million each year respectively. **We continue to be optimistic that our publicly stated goal of providing at least \$60 million in annual proceeds to state causes will be attainable over the coming years. (This goal is based on the highest core-product proceeds amount raised during the Lottery's first 25 years.)**

As part of standard procedures, the lottery's budget figures have been entered into the state's I-3 accounting system and are available for review by all interested parties. In addition, detailed updates to the lottery's sales and budget figures are also regularly provided through the state's I-3 accounting system.

Copies of the lottery's Overall Budget and Operating Expenses are both included with this report as **Attachments C** and **Attachment D**. In addition, a direct link to the lottery's annual report for FY 2012 is available here: <http://www.ialottery.com/AboutUs/AnnualReport.asp>



Matt McDermott



Mary Junge



Mike Klappholz



Deb Burnight



Herman Richter



Michael Fitzgerald

The members of the Lottery Board are: Matt McDermott of West Des Moines, an attorney at a Des Moines law firm whose term on the Board began in May; Chairperson Mary Junge of Cedar Rapids, a CPA and practicing tax and estate-planning attorney; Vice Chair Mike Klappholz of Cedar Rapids, a retired police chief; Deb Burnight, a certified professional facilitator and trainer from Sioux City; Herman Richter, president of The Three Sons clothing store in Milford and a co-founder of the popular and mythical University of Okoboji; and State Treasurer Michael Fitzgerald, who serves on the board as a nonvoting member.

Internet Gambling

Internet gaming became a major topic of discussion in Congress in the months since our last report to your committees, and the Iowa Lottery has been part of the conversation in Washington, D.C. In November, the lottery sent a letter to U.S. Senate and House leadership as well as Iowa's Congressional delegation. Lottery CEO Terry Rich and Vice President for External Relations Mary Neubauer also traveled to D.C. for in-person meetings with federal lawmakers in early December.

As discussed in our June report, the U.S. Justice Department in December 2011 issued a letter providing its conclusion that the federal Wire Act prohibits only the transmission of communications relating to bets or wagers on sporting events or contests. Following the release of that letter, several states around the country began to closely examine the issue of introducing lottery games and other forms of gaming on the Internet. A few have already taken steps to do so. Illinois and Georgia are now both selling lottery tickets on the Internet and Delaware has authorized Internet gaming under the control and operation of the Delaware Lottery.

The Iowa Lottery has the authority to conduct Internet gaming, and continues to study the issue. The lottery is cognizant of the fact that there would be a negative impact on proceeds to state causes if it does not adapt to player expectations for convenience and use of technology.



In late November, Lottery CEO Terry Rich joined the National Governor's Association, National Conference of State Legislatures and National Council of Legislators from Gaming States in stating his opposition to legislation that would impede states' rights on gaming. A copy of Rich's Nov. 21 letter is included in this report as **Attachment E**.

Rich and Neubauer then traveled Dec. 4-6 to Washington along with representatives from several other lotteries on behalf of the North American Association of State and Provincial Lotteries (NASPL). During

their visit, the NASPL representatives met with lawmakers and staffers from more than 100 House and Senate offices, including all members of Iowa's delegation. The lotteries emphasized that the federal government should not infringe on states' rights to implement and regulate Internet gaming within their own borders. Lottery staff also stressed that Individual states are best equipped to respond to their citizens' unique local preferences and decide what, if any, intrastate gaming should occur within their jurisdictions.

The lottery will continue to monitor and evaluate the proper use of new technology to meet citizens' demands. As stated, before, we will provide updates to your committees and the Legislature as a whole about changes that could be involved in Iowa and the impact such issues could have on the state budget should we decide to proceed. We also believe it is crucial to continue efforts to ensure the state protects its rights and resources in this matter.

We continue to offer ourselves as a business analyst to offer outside perspective, advice and revenue projections in these discussions.

That Unclaimed Jackpot Money

This past summer, the Iowa Lottery gave away about \$2 million in prize money from two big jackpots that expired without being claimed. The lottery's "Mystery Millionaire" promotion gave players the chance to win prizes from \$10,000 up to \$1 million. The process culminated in a live give-away show on the Grand Concourse during the final day of the 2012 Iowa State Fair. Dean Stuhr of Des Moines, a retired police officer, won the \$1 million top prize that day.

Lottery executives believe the situation that led up to the Mystery Millionaire promotion was unprecedented: Two big jackpots expired at nearly the same time. The first was that Hot Lotto jackpot won in Des Moines that was briefly claimed before the claim was withdrawn in January. The second was a \$77 million Powerball jackpot won in Georgia that had expired without being claimed in December 2011.



The money from unclaimed jackpots goes back to the individual lotteries that sell the games in proportion to the percentage of sales that came from each state. Iowa's share was a total of about \$2 million. The lottery gave that money away in Mystery Millionaire, with 49 players winning prizes of \$10,000 to \$1 million; and audience members at the Fair and lottery retail locations also winning prizes.

Meantime, the investigation into what occurred with the brief Hot Lotto claim in Des Moines remains ongoing. It is an open, active case at this time. The Iowa Attorney General's Office and the Iowa Division of Criminal Investigation continue to follow leads.

Ongoing Issues To Monitor

Lottery Winner Anonymity: Legislators in New Jersey and Michigan have introduced and discussed bills that would allow lottery winners to remain anonymous, at least for some time. While a handful of U.S. states allow winners to remain anonymous, the vast majority require disclosure of winners'

information for transparency about the lottery's operation. Concerns appear to be growing regarding those open records requirements, however.

Legislators in New Jersey have been discussing a proposal that would allow lottery winners to remain anonymous for one year. The bill's sponsor said his goal was to allow winners time to better manage their lives after claiming their prize.

Retail Security Compliance Checks: As it has for the past few years, the Iowa Lottery continued this year to conduct unannounced security compliance checks at lottery retail locations across the state to see how winning tickets would be handled.

Lottery investigators conducted 410 security compliance checks at Iowa retail locations in 2012. And as in the retail checks in years past, all prizes have been properly paid by store personnel.

There have been problems involving lottery-ticket redemption outside Iowa, however, so the lottery will continue to double-check the process here. Cases involving retailer fraud have been documented in several states, including Minnesota, Idaho and California. All of the suspects in those states were accused of cheating lottery customers.

In addition, we continue to focus on player security through education to players and retailers regarding ticket receipts and requiring signatures on tickets.



IOWA LOTTERY
PERFORMANCE MEASURES
FY 2013

Attachment A

| Month | | JUL | AUG | SEP | OCT | NOV | | DEC | JAN | FEB | MAR | APR | MAY | JUN |
|----------------------------|------------|------------|------------|------------|-------------|-------------|-----------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Gross Sales | Budget '13 | 20,704,712 | 23,236,949 | 21,008,030 | 21,964,053 | 22,422,595 | | 23,240,177 | 23,369,824 | 24,166,499 | 26,112,372 | 24,460,279 | 24,080,068 | 22,334,442 |
| | Actual '11 | 20,683,463 | 20,526,880 | 20,268,736 | 20,707,755 | 22,414,149 | | 23,638,991 | 23,866,645 | 22,592,711 | 27,156,908 | 24,150,580 | 22,962,332 | 22,421,899 |
| | Actual '12 | 21,873,877 | 24,265,848 | 21,821,737 | 24,435,865 | 25,093,494 | | 26,243,111 | 25,715,692 | 30,212,168 | 34,836,028 | 25,760,263 | 26,307,787 | 24,285,855 |
| | Actual '13 | 24,002,158 | 27,670,234 | 23,898,937 | 25,478,715 | 35,880,677 | | - | - | - | - | - | - | - |
| Prize Expense | Budget '13 | 12,225,406 | 13,720,606 | 12,404,507 | 12,969,005 | 13,239,758 | 59.05% 1) | 13,722,512 | 13,799,064 | 14,269,472 | 15,418,442 | 14,442,939 | 14,218,438 | 13,187,707 |
| | Actual '11 | 12,779,039 | 11,692,728 | 11,763,446 | 12,293,596 | 12,390,886 | 55.28% 2) | 14,042,187 | 13,741,084 | 14,281,690 | 15,042,753 | 13,796,588 | 13,991,657 | 13,145,432 |
| | Actual '12 | 12,753,428 | 13,913,842 | 12,543,873 | 14,418,330 | 13,955,317 | 55.61% 3) | 16,548,952 | 15,632,293 | 17,991,110 | 19,681,217 | 15,101,762 | 15,850,810 | 14,051,517 |
| | Actual '13 | 14,725,708 | 15,978,048 | 14,152,073 | 14,520,050 | 20,300,550 | 56.58% 4) | - | - | - | - | - | - | - |
| Operating Expenses | Budget '13 | 458,823 | 982,362 | 982,362 | 1,432,779 | 849,140 | | 982,362 | 988,706 | 988,706 | 988,706 | 1,442,295 | 855,484 | 1,640,924 |
| | Actual '11 | 539,097 | 693,153 | 884,831 | 807,776 | 1,184,565 | | 703,967 | 828,828 | 936,391 | 850,695 | 888,354 | 1,287,987 | 1,548,869 |
| | Actual '12 | 460,879 | 794,576 | 991,760 | 874,688 | 1,261,482 | | 757,874 | 882,297 | 883,113 | 949,752 | 878,951 | 1,376,977 | 1,919,910 |
| | Actual '13 | 523,449 | 891,820 | 958,942 | 1,344,045 | 772,498 | | - | - | - | - | - | - | - |
| Proceeds to General Fund | Budget '13 | 4,898,370 | 5,030,028 | 4,453,312 | 4,250,259 | 4,952,542 | | 5,030,864 | 5,058,065 | 5,264,198 | 5,767,679 | 4,886,623 | 5,375,057 | 4,137,949 |
| | Actual '11 | 4,714,318 | 5,198,524 | 4,295,667 | 5,010,008 | 6,255,411 | | 5,606,161 | 6,208,866 | 4,335,482 | 7,234,879 | 6,253,580 | 4,814,963 | 4,968,521 |
| | Actual '12 | 5,684,111 | 6,081,167 | 5,029,059 | 5,818,860 | 7,365,377 | | 5,345,966 | 5,759,711 | 7,373,869 | 9,782,829 | 6,894,379 | 5,829,479 | 5,047,647 |
| | Actual '13 | 5,310,624 | 6,687,662 | 6,055,941 | 7,105,024 | 10,310,506 | | - | - | - | - | - | - | - |
| Proceeds to Veterans Trust | Budget '13 | 91,838 | 462,261 | 333,090 | 181,235 | 149,349 | | 144,787 | 207,474 | 316,167 | 411,416 | 219,105 | 160,997 | 122,281 |
| | Actual '11 | 131,645 | 382,640 | 441,669 | 251,116 | 208,123 | | 203,448 | 184,063 | 267,748 | 472,319 | 229,155 | 180,589 | 152,856 |
| | Actual '12 | 57,594 | 350,656 | 391,066 | 165,122 | 128,253 | | 155,046 | 321,611 | 406,376 | 267,787 | 248,021 | 149,725 | 78,236 |
| | Actual '13 | 268,863 | 450,192 | 101,538 | 69,313 | 69,101 | | - | - | - | - | - | - | - |
| Total Proceeds | Budget '13 | 4,990,208 | 5,492,289 | 4,786,402 | 4,431,494 | 5,101,891 | | 5,175,651 | 5,265,539 | 5,580,365 | 6,179,095 | 5,105,728 | 5,536,054 | 4,260,230 |
| | Actual '11 | 4,845,963 | 5,581,164 | 4,737,336 | 5,261,124 | 6,463,534 | | 5,809,609 | 6,392,929 | 4,603,230 | 7,707,198 | 6,482,735 | 4,995,552 | 5,121,377 |
| | Actual '12 | 5,741,705 | 6,431,823 | 5,420,125 | 5,983,982 | 7,493,630 | | 5,501,012 | 6,081,322 | 7,780,245 | 10,050,616 | 7,142,400 | 5,979,204 | 5,125,883 |
| | Actual '13 | 5,579,487 | 7,137,854 | 6,157,479 | 7,174,337 | 10,379,607 | | - | - | - | - | - | - | - |
| YEAR TO DATE | | | | | | | | | | | | | | |
| Gross Sales | Budget '13 | 20,704,712 | 43,941,661 | 64,949,691 | 86,913,744 | 109,336,339 | | 132,576,516 | 155,946,340 | 180,112,839 | 206,225,211 | 230,685,490 | 254,765,558 | 277,100,000 |
| | Actual '11 | 20,683,463 | 41,210,343 | 61,479,079 | 82,186,834 | 104,600,983 | 30.91% 5) | 128,239,974 | 152,106,619 | 174,699,328 | 201,856,234 | 226,006,812 | 248,969,142 | 271,391,047 |
| | Actual '12 | 21,873,877 | 46,139,725 | 67,961,462 | 92,397,327 | 117,490,821 | 16.55% 6) | 143,733,932 | 169,449,624 | 199,661,792 | 234,497,820 | 260,258,083 | 286,565,870 | 310,851,725 |
| | Actual '13 | 24,002,158 | 51,672,392 | 75,571,329 | 101,050,044 | 136,930,721 | 25.24% 7) | - | - | - | - | - | - | - |
| Prize Expense | Budget '13 | 12,225,406 | 25,946,012 | 38,350,519 | 51,319,524 | 64,559,282 | 59.05% 1) | 78,281,794 | 92,080,858 | 106,350,330 | 121,768,772 | 136,211,711 | 150,430,149 | 163,617,856 |
| | Actual '11 | 12,779,039 | 24,471,767 | 36,235,213 | 48,528,809 | 60,919,695 | 58.24% 2) | 74,961,882 | 88,702,966 | 102,984,649 | 118,027,395 | 131,823,976 | 145,815,626 | 158,961,078 |
| | Actual '12 | 12,753,428 | 26,667,270 | 39,211,143 | 53,629,473 | 67,584,790 | 57.52% 3) | 84,133,742 | 99,766,035 | 117,757,145 | 137,438,362 | 152,540,124 | 168,390,934 | 182,442,447 |
| | Actual '13 | 14,725,708 | 30,703,756 | 44,855,829 | 59,375,879 | 79,676,429 | 58.19% 4) | - | - | - | - | - | - | - |
| Operating Expenses | Budget '13 | 458,823 | 1,441,185 | 2,423,547 | 3,856,326 | 4,705,466 | | 5,687,828 | 6,676,534 | 7,665,240 | 8,653,946 | 10,096,241 | 10,951,725 | 12,592,649 |
| | Actual '11 | 539,097 | 1,232,250 | 2,117,081 | 2,924,857 | 4,109,422 | | 4,813,389 | 5,642,217 | 6,578,610 | 7,429,307 | 8,317,663 | 9,605,652 | 11,154,514 |
| | Actual '12 | 460,879 | 1,255,455 | 2,247,215 | 3,121,903 | 4,383,385 | | 5,141,259 | 6,023,556 | 6,906,669 | 7,856,421 | 8,735,372 | 10,112,349 | 12,032,258 |
| | Actual '13 | 523,449 | 1,415,269 | 2,374,211 | 3,718,256 | 4,490,754 | | - | - | - | - | - | - | - |
| Proceeds to General Fund | Budget '13 | 4,898,370 | 9,928,398 | 14,381,710 | 18,631,969 | 23,584,511 | | 28,615,375 | 33,673,440 | 38,937,638 | 44,705,317 | 49,591,940 | 54,966,997 | 59,104,946 |
| | Actual '11 | 4,714,318 | 9,912,842 | 14,208,509 | 19,218,517 | 25,473,928 | | 31,080,089 | 37,288,955 | 41,624,438 | 48,859,318 | 55,112,899 | 59,927,863 | 64,896,382 |
| | Actual '12 | 5,684,111 | 11,765,278 | 16,794,337 | 22,613,197 | 29,978,574 | | 35,324,540 | 41,084,251 | 48,458,120 | 58,240,949 | 65,135,328 | 70,964,807 | 76,012,455 |
| | Actual '13 | 5,310,624 | 11,998,286 | 18,054,227 | 25,159,251 | 35,469,757 | | - | - | - | - | - | - | - |
| Proceeds to Veterans Trust | Budget '13 | 91,838 | 554,099 | 887,189 | 1,068,424 | 1,217,773 | | 1,362,560 | 1,570,034 | 1,886,201 | 2,297,617 | 2,516,722 | 2,677,719 | 2,800,000 |
| | Actual '11 | 131,645 | 514,285 | 955,954 | 1,207,070 | 1,415,193 | | 1,618,641 | 1,802,704 | 2,070,452 | 2,542,771 | 2,771,926 | 2,952,515 | 3,105,371 |
| | Actual '12 | 57,594 | 408,250 | 799,316 | 964,438 | 1,092,691 | | 1,247,737 | 1,569,348 | 1,975,724 | 2,243,511 | 2,491,532 | 2,641,257 | 2,719,494 |
| | Actual '13 | 268,863 | 719,055 | 820,593 | 889,906 | 959,007 | | - | - | - | - | - | - | - |
| Total Proceeds | Budget '13 | 4,990,208 | 10,482,497 | 15,268,899 | 19,700,393 | 24,802,284 | | 29,977,935 | 35,243,474 | 40,823,839 | 47,002,934 | 52,108,662 | 57,644,716 | 61,904,946 |
| | Actual '11 | 4,845,963 | 10,427,127 | 15,164,463 | 20,425,587 | 26,889,121 | 35.48% 5) | 32,698,730 | 39,091,659 | 43,694,890 | 51,402,089 | 57,884,825 | 62,880,378 | 68,001,753 |
| | Actual '12 | 5,741,705 | 12,173,528 | 17,593,653 | 23,577,635 | 31,071,265 | 17.24% 6) | 36,572,277 | 42,653,599 | 50,433,844 | 60,484,460 | 67,626,860 | 73,606,064 | 78,731,949 |
| | Actual '13 | 5,579,487 | 12,717,341 | 18,874,820 | 26,049,157 | 36,428,764 | 46.88% 7) | - | - | - | - | - | - | - |

- 1) Budget FY13 Prize Payout
- 2) Actual FY11 Prize Payout
- 3) Actual FY12 Prize Payout
- 4) Actual FY13 Prize Payout
- 5) Actual FY13 compared to Actual FY11
- 6) Actual FY13 compared to Actual FY12
- 7) Actual FY13 compared to Budget FY13

IOWA LOTTERY AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR FISCAL YEARS 2008 THROUGH 2012
FINAL

| | Fiscal Year 2012 | Fiscal Year 2011 | Fiscal Year 2010 | Fiscal Year 2009 | Fiscal Year 2008 |
|-----------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| OPERATING REVENUES | | | | | |
| Instant-scratch ticket sales | \$ 188,814,325 | \$165,329,031 | 143,759,258 | 136,268,555 | \$137,917,848 |
| Pick 3 sales | 6,743,717 | 6,573,020 | 6,531,001 | 6,534,765 | 6,373,362 |
| Powerball sales | 57,934,104 | 47,124,656 | 59,190,012 | 58,220,203 | 63,761,024 |
| Mega Millions sales | 22,293,152 | 16,051,016 | 5,544,128 | 0 | 0 |
| Hot Lotto sales | 10,525,347 | 11,608,730 | 13,653,746 | 14,329,610 | 11,724,416 |
| Raffle sales | 0 | 0 | 789,200 | 0 | 1,425,460 |
| Pick 4 sales | 2,788,613 | 2,701,949 | 2,662,191 | 2,555,237 | 2,315,469 |
| \$100,000 Cash Game sales | 4,314,098 | 3,687,370 | 3,908,785 | 4,113,307 | 4,291,933 |
| Pull-tab sales | 17,438,369 | 18,315,275 | 20,217,316 | 21,315,424 | 21,407,956 |
| Application fees | 4,075 | 5,575 | 3,975 | 3,680 | 5,150 |
| Other revenue | 212,884 | 138,133 | 22,147 | 65,449 | 47,962 |
| Total operating revenues | 311,068,684 | 271,534,755 | 256,281,759 | 243,406,230 | 249,270,580 |
| OPERATING EXPENSES | | | | | |
| Scratch ticket prize expense | 116,954,213 | 103,652,725 | 91,479,848 | 81,846,620 | 85,907,684 |
| Pick 3 prize expense | 3,993,780 | 3,894,422 | 3,958,003 | 3,834,735 | 3,763,710 |
| Powerball prize expense | 28,287,777 | 22,553,385 | 28,558,287 | 28,118,140 | 30,749,779 |
| Mega Millions prize expense | 11,307,020 | 8,365,976 | 2,879,811 | 0 | 0 |
| Hot Lotto prize expense | 5,118,123 | 5,608,729 | 6,610,476 | 7,015,713 | 5,668,710 |
| Raffle prize expense | 0 | 0 | 392,876 | (10,500) | 1,200,000 |
| Pick 4 prize expense | 1,634,063 | 1,596,054 | 1,544,018 | 1,473,587 | 1,352,661 |
| \$100,000 Cash Game prize expense | 2,175,236 | 1,745,257 | 2,005,333 | 2,271,476 | 2,525,366 |
| Pull-tab prize expense | 10,912,790 | 11,458,672 | 12,702,718 | 13,389,649 | 13,397,429 |
| VIP Club prize expense | 1,907,142 | 0 | 0 | 0 | 0 |
| Promotional prize expense | 152,303 | 85,858 | 322,417 | 485,921 | 104,236 |
| Advertising/Publicity | 6,605,304 | 6,647,468 | 7,539,052 | 7,007,617 | 7,307,529 |
| Retailer compensation expense | 20,125,497 | 17,284,432 | 16,109,637 | 15,298,641 | 15,650,431 |
| Ticket expense | 3,115,487 | 2,784,308 | 2,683,364 | 2,674,067 | 2,444,025 |
| Vendor compensation expense | 6,204,116 | 5,848,081 | 8,168,273 | 7,796,934 | 7,823,721 |
| Salary and benefits | 9,120,063 | 8,650,620 | 9,819,749 | 8,759,206 | 9,435,111 |
| Travel | 451,040 | 415,007 | 369,153 | 404,876 | 443,445 |
| Supplies | 147,091 | 110,465 | 104,863 | 110,739 | 107,592 |
| Printing | 15,031 | 13,830 | 14,477 | 9,582 | 17,737 |
| Postage | 6,238 | 5,112 | 6,166 | 4,718 | 4,528 |
| Communications | 130,366 | 518,708 | 562,025 | 568,096 | 574,029 |
| Rentals | 290,595 | 277,163 | 285,660 | 290,254 | 277,173 |
| Utilities | 97,579 | 103,438 | 98,468 | 103,240 | 114,292 |
| Professional fees | 165,225 | 118,062 | 165,833 | 121,965 | 144,953 |
| Vending machine maintenance | 537,941 | 526,196 | 488,697 | 489,809 | 492,495 |
| Outside services & repairs | 460,445 | 306,730 | 403,083 | 197,386 | 264,151 |
| Data processing | 50,320 | 46,670 | 37,700 | 40,929 | 37,998 |
| Equipment | 719,188 | 387,674 | 152,832 | 204,598 | 155,425 |
| Reimbursement to other | | | | | |
| state agencies | 433,436 | 432,878 | 455,697 | 435,976 | 500,235 |
| Depreciation | 173,611 | 117,508 | 864,963 | 1,403,051 | 1,407,901 |
| Other | 56,009 | 58,006 | 104,355 | 132,141 | 129,169 |
| MUSL administrative expense | 45,106 | 40,528 | 17,818 | 0 | 0 |
| Total operating expenses | 231,392,135 | 203,653,962 | 198,905,652 | 184,479,166 | 192,001,515 |
| Operating income (loss) | 79,676,549 | 67,880,793 | 57,376,107 | 58,927,064 | 57,269,065 |

IOWA LOTTERY AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR FISCAL YEARS 2008 THROUGH 2012
FINAL

| | Fiscal Year 2012 | Fiscal Year 2011 | Fiscal Year 2010 | Fiscal Year 2009 | Fiscal Year 2008 |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Non-operating revenue (expense) | | | | | |
| State General Fund | (76,012,455) | (64,896,382) | (55,245,512) | (56,550,792) | (55,296,265) |
| Veterans Trust Fund | (2,719,494) | (3,105,371) | (2,661,554) | (2,783,377) | 0 |
| Gambler's Treatment Program | 0 | 0 | 0 | (1,219,137) | (1,249,853) |
| Interest income | 105,755 | 146,178 | 364,957 | 421,090 | 699,922 |
| Interest expense | (39,134) | (42,418) | (45,702) | (48,986) | (109,467) |
| Net non-operating revenues(expense) | (78,665,328) | (67,897,993) | (57,587,811) | (60,181,202) | (55,955,663) |
| Change in net assets | 1,011,221 | (17,200) | (211,704) | (1,254,138) | 1,313,402 |
| Net assets, beginning of period | 4,184,739 | 4,201,939 | 4,413,643 | 5,667,781 | 4,354,379 |
| Net assets, end of period | \$5,195,960 | \$4,184,739 | \$4,201,939 | \$4,413,643 | \$5,667,781 |

Budget for Lottery Fund

Attachment C

| | FY 2012 ACTUAL | FY 2013 BOARD APPROVED BUDGET | FY 2014 BOARD APPROVED BUDGET | FY 2015 BOARD APPROVED BUDGET |
|---|--------------------|--|-------------------------------------|-------------------------------------|
| <u>Resources</u> | | | | |
| Lottery sales | 310,851,725 | 277,100,000 | 281,000,000 | 287,685,000 |
| Interest income | 105,755 | 500,000 | 500,000 | 500,000 |
| Application fees | 4,075 | 5,000 | 5,000 | 5,000 |
| Other | 212,884 | 5,000 | 5,000 | 5,000 |
| Total Resources | 311,174,439 | 277,610,000 | 281,510,000 | 288,195,000 |
| <u>Expenses and Change in Net Assets</u> | | | | |
| Prizes | 182,442,447 | 163,617,856 | 165,430,394 | 169,357,666 |
| Retailer compensation | 20,125,497 | 17,648,025 | 18,193,075 | 18,625,889 |
| Advertising production and media purchases | 6,603,456 | 11,084,000 | 11,240,000 | 11,507,400 |
| Retailer Lottery system/Terminal Communications | 6,213,722 | 6,392,184 | 6,474,240 | 6,628,262 |
| Instant/Pull-tab ticket expense & machine maintenance | 3,705,428 | 3,622,000 | 4,085,000 | 4,185,000 |
| Terminal equipment/Ticket dispensers/Vending machines | 213,216 | 200,000 | 250,000 | 250,000 |
| Courier delivery of instant tickets | 108,581 | 455,000 | 535,000 | 535,000 |
| Interest expense (ITVM/PTVM/Building) | 39,134 | 45,000 | 32,840 | 29,556 |
| Lottery operating expense | 11,979,788 | 12,592,649 | 13,015,308 | 14,519,808 |
| Increase (decrease) in net assets | 1,011,221 | 48,341 | 48,341 | 48,341 |
| Total Expenses and Change in Net Assets | 232,442,490 | 215,705,055 | 219,304,198 | 225,686,922 |
| <u>Proceeds</u> | | | | |
| Proceeds Transfer to General Fund | 76,012,455 | 59,104,946 | 59,405,802 | 59,708,078 |
| Proceeds Transfer to Veterans Trust Fund | 2,719,494 | 2,800,000 | 2,800,000 | 2,800,000 |
| Total Proceeds Transfers | 78,731,949 | 61,904,946 | 62,205,802 | 62,508,078 |
| Total Expenses and Proceeds | 311,174,439 | 277,610,000 | 281,510,000 | 288,195,000 |

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Lottery Operations - Budget Detail

Attachment D

| | FY 2012 ACTUAL | FY 2013 BOARD APPROVED BUDGET | FY 2014 BOARD APPROVED BUDGET | FY 2015 BOARD APPROVED BUDGET |
|---------------------------------|----------------------|--|--|--|
| Administrative payroll | 9,120,063 | 9,915,649 | 9,915,649 | 11,515,649 * |
| Travel | 451,040 | 443,000 | 495,000 | 495,000 |
| Supplies | 116,163 | 105,000 | 125,000 | 125,000 |
| Printing | 11,022 | 15,000 | 16,000 | 16,000 |
| Postage | 6,238 | 6,000 | 6,500 | 6,500 |
| Communications | 124,769 | 175,000 | 160,000 | 160,000 |
| Rentals | 290,595 | 300,000 | 305,000 | 310,000 |
| Utilities | 97,579 | 105,000 | 105,000 | 105,000 |
| Professional fees | 161,225 | 135,000 | 170,000 | 230,000 |
| Outside services and repair | 340,749 | 400,000 | 400,000 | 400,000 |
| Data processing | 50,320 | 50,000 | 55,000 | 55,000 |
| Equipment | 500,015 | 170,000 | 430,500 | 250,000 |
| Reimbursement to state agencies | 433,436 | 450,000 | 475,000 | 495,000 |
| Depreciation | 173,611 | 223,000 | 251,659 | 251,659 |
| Other expenses | 102,963 | 100,000 | 105,000 | 105,000 |
| Total operating expenses | \$ 11,979,788 | \$ 12,592,649 | \$ 13,015,308 | \$ 14,519,808 |

* Step increases and cost of living adjustments are not included in FY14 or FY15 budgets. Budgets will be adjusted after contract negotiations are complete and salary and benefit increases are known. FY15 Administrative payroll includes an estimated \$1.6 million for unfunded pension liability. This will be required to be recorded under a new GASB statement that goes into effect in FY15.



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Terry E. Branstad · Governor

Kim Reynolds · Lt. Governor

Terry Rich · Chief Executive Officer

Nov. 21, 2012

The Honorable Harry Reid
Majority Leader
U.S. Senate
Washington, D.C. 20510

The Honorable Mitch McConnell
Minority Leader
U.S. Senate
Washington, D.C. 20510

The Honorable John Boehner
Speaker of the House
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Nancy Pelosi
Minority Leader
U.S. House of Representatives
Washington, D.C. 20515

Dear Majority Leader Reid, Senator McConnell, Speaker Boehner, and Representative Pelosi:

I write to reiterate my concerns regarding legislation that would authorize federal regulation of Internet gaming activities. Historically, states have retained full authority to regulate gambling activities within their borders in accordance with the unique views of their citizens. I urge you to oppose any efforts to infringe on states' statutory and regulatory rights regarding gaming activities.

The proposed Reid-Kyl legislation would prohibit interstate and intrastate Internet gaming, with the exception of off-track horse wagers, licensed online poker, and lottery games with no more than one drawing per day. The proposed legislation appears to effectively limit participation in the online marketplace to only those gaming operations with a presence in the State of Nevada.

According to early drafts of the Reid-Kyl proposal, states that wanted to participate in online gaming would have to "opt in" to the federal system or be boxed out entirely. States also would be prohibited from choosing for themselves which games to offer on the Internet. Moreover, the proposed tax structure on Internet poker overrides state tax rates and disproportionately favors states in which online poker licensors are located. Gaming laws vary from state to state as do the interests of local citizens and the federal government has traditionally deferred to the states by enacting only those laws necessary to support local policies. This proposal supersedes states' authority over lawful gaming within their borders.

Gambling activities in the states include modern lotteries, and Iowa's own lottery has operated with great integrity for 27 years. During that timeframe, the Iowa Lottery has raised more than \$1.4 billion for vital causes, including economic development, education, and support for Iowa veterans and their families. Across the nation, in 2011 alone, lotteries provided more than \$25 billion in net profits to local causes. In short, state lotteries are funding important missions.

The federal government should not infringe on states' rights to implement and regulate Internet gaming within their own borders. The Iowa Lottery has responsibly enacted and enforced gaming statutes and regulations. Individual states are best equipped to respond to their citizens' unique local preferences and decide what, if any, intrastate gaming should occur within their jurisdictions.

Congress should not enact legislation that supersedes state authority and that selects winners and losers. I respectfully join with the National Governors Association, National Conference of State Legislatures, and National Association of State and Provincial Lotteries in urging you to oppose any legislation that would pre-empt or encroach on states' sovereignty regarding gaming matters.

Sincerely,

A handwritten signature in black ink that reads "Terry Rich". The signature is written in a cursive style with a large, sweeping initial "T".

Terry Rich, CEO

cc: Iowa Congressional Delegation
Governor Terry Branstad
Iowa Senate Leaders
Iowa House Leaders
Iowa Lottery Authority Board of Directors